

AR48



**Commerce
Capital**

**Annual
Report 1976**

Trust and Mortgage Loan Companies

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CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

AR48

(Unaudited)
Six months ended
June 30

1976 1975

Source of Funds		
Net earnings	\$ 855,000	\$ 557,000
Items not involving funds — net	502,000	482,000
	<u>1,357,000</u>	<u>1,039,000</u>
Net change in accounts receivable and payable ..	806,000	2,489,000
Increase in guaranteed accounts	38,884,000	35,047,000
Increase in bank indebtedness	—	1,528,000
Issue of notes payable	—	1,250,000
Increase in deferred income	283,000	1,032,000
Increase in mortgages payable	2,196,000	629,000
Investment in subsidiary companies by minority shareholders	27,000	—
	<u>\$43,553,000</u>	<u>\$43,014,000</u>
Application of Funds		
Acquisition of shares of subsidiary companies	467,000	532,000
Purchase of securities less proceeds of sales	2,357,000	5,773,000
Net increase in investment in properties	21,911,000	603,000
Increase in cash and deposit receipts	5,646,000	8,950,000
Reduction of bank indebtedness	124,000	—
Net increase in mortgages receivable	12,567,000	26,579,000
Purchase of fixed assets	203,000	314,000
Dividends paid by subsidiary companies to minority shareholders	28,000	48,000
Net change in other assets and liabilities	75,000	215,000
Dividends paid	<u>175,000</u>	<u>—</u>
	<u>\$43,553,000</u>	<u>\$43,014,000</u>

COMMERCE CAPITAL CORPORATION LIMITED
Suite 3424, One Place Ville Marie,
Montreal, Quebec H3B 3N6

Commerce Capital Companies
Farmers & Merchants Trust Company
— *trust company services*
Commerce Capital Properties Limited
— *real estate development*
General Mortgage Corporation of Canada
— *mortgage lending*
Comcap Factors Inc.
— *factoring*
Commerce Capital Financial Corporation
— *interim mortgage lending*

COMMERCE CAPITAL CORPORATION

Interim Report to Shareholders
Six Months Ended June 30, 1976

TO THE SHAREHOLDERS

Commerce Capital enjoyed a period of strong growth during the first half of 1976. Unaudited consolidated earnings before extraordinary items amounted to \$804,000 compared to \$557,000 for the same period last year. After taking into account a 22% increase in the average number of shares outstanding, this was equivalent to 28 cents per share compared to 23 cents in 1975 — a 22% improvement. Total assets expanded by 13% during this period and now stand at \$358 million.

Our mortgage lending operations remained active, reflecting the steady demand for funds from home buyers. Mortgage interest rates declined marginally. In July, we combined the Ontario mortgage operations of our two principal subsidiaries, Farmers & Merchants Trust Company and General Mortgage Corporation of Canada, in order to improve our effectiveness in this important market area.

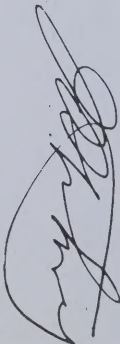
Construction of our two Vancouver condominium projects is virtually complete and the sales programmes are proceeding well. In July, we concluded the sale of a 50% interest in our shopping centre in Courtenay. British Columbia to an institutional investor. Construction of our shopping centre in Winnipeg is on schedule and we expect it will open in October.

Commerce Capital is continuing to concentrate on its trust and loan operations across Canada. In this connection, we believe our subsidiaries in this field should bear names which identify them with the parent company and the other companies in the group. It is the intention, therefore, that in the near future Farmers & Merchants Trust Company will change its name to Commerce Capital Trust Company and General Mortgage Corporation of Canada will change its name to Commerce Capital Mortgage Corporation. Such changes will be subject to the required shareholder and regulatory approvals.

As outlined in our first quarter report to shareholders, the anti-inflation guidelines imposed by the Federal Government prevent the Company from paying any further dividends until after October 13 of this year. For this reason, we are unable to pay our regular dividend of 3 cents per share on September 30. However, we have received permission from the Anti-Inflation Board to declare a dividend at this time for payment after October 13. Accordingly, the Board of Directors has declared a dividend of 3 cents per share payable October 15, 1976 to shareholders of record September 24, 1976.

In May, anti-inflation guidelines were established for the trust and loan industry. At present, these guidelines do not restrict our operations and we are confident that earnings for the balance of the year will continue to exceed 1975 levels.

Yours very truly,



J. B. Whiteley, President

Montreal, Quebec
August 5, 1976

CONSOLIDATED STATEMENT OF EARNINGS

	(Unaudited) Six months ended June 30	
	1976	1975
Income		
Interest	\$18,301,000	\$12,900,000
Dividends	234,000	72,000
Other income	1,467,000	1,204,000
	<u>20,002,000</u>	<u>14,176,000</u>
Expenses		
Interest	14,378,000	10,375,000
Administrative and general expenses	3,209,000	2,252,000
	<u>17,587,000</u>	<u>12,627,000</u>
Earnings before Income Taxes, Minority Interest and Extraordinary Items	2,415,000	1,549,000
Income taxes	1,353,000	749,000
	<u>1,062,000</u>	<u>800,000</u>
Minority interest	258,000	243,000
Earnings before Extraordinary Items	804,000	557,000
Extraordinary Items		
Recovery of income taxes ...	51,000	—
Net Earnings	\$ 855,000	\$ 557,000
Earnings per Share		
Before extraordinary items	28¢	23¢
Net earnings	29¢	23¢
Average number of shares outstanding	2,916,870	2,386,870



Commerce Capital Corporation Limited

Highlights

	<u>1976</u>	<u>1975</u>
Total Income	\$ 58,584,000	\$ 31,860,000
Net Earnings Per share	\$ 1,857,000 67¢	\$ 1,305,000 51¢
Total Assets	\$390,167,000	\$315,737,000
Shareholders' Equity Per share	\$ 10,556,000 \$4.19	\$ 10,542,000 \$3.61
Number of Shares Outstanding		
Weighted average	2,760,158	2,539,336
At year-end	2,516,870	2,916,870
Approximate Number of Registered Shareholders	2,300	2,300



Commerce Capital Corporation Limited

Commerce Capital Companies

Commerce Capital Corporation
Limited
One Place Ville Marie, Suite 3424
Montreal, Quebec

Commerce Capital Financial
Services (1977) Limited
8 King Street East, Suite 300
Toronto, Ontario

Commerce Capital Trust
Company
209 - 8th Avenue S.W.
Calgary, Alberta

Commerce Capital Funding
Limited
8 King Street East, Suite 300
Toronto, Ontario

Commerce Capital Mortgage
Corporation
8 King Street East, Suite 300
Toronto, Ontario

Comcap Factors Inc.
50 Cremazie Boulevard West
Suite 609
Montreal, Quebec

Commerce Capital Properties
Limited
349 Portage Avenue
Winnipeg, Manitoba

Auditors

Thorne Riddell & Co.
Montreal

Stock Listings

The Toronto Stock Exchange
Montreal Stock Exchange
The Alberta Stock Exchange

Transfer Agent and Registrar

Canada Permanent Trust
Company
Montreal, Toronto, Winnipeg, Regina,
Calgary and Vancouver

Head Office

One Place Ville Marie, Suite 3424
Montreal, Quebec. H3B 3N6

Directors

J. Addison, Fredericton,
President,
James Addison and
Associates Limited

T. L. Charne, Q.C., Winnipeg,
President,
Commerce Capital Properties
Limited

M. Gaasenbeek, Toronto,
Vice-President,
Midland Doherty Limited

*D. C. Hannaford, Montreal,
President,
Mead & Co. Limited

*B. F. Kelly, Montreal,
President,
Eastern Elevator Ltd.

R. B. Love, Q.C., Calgary,
Partner,
Macleod Dixon

*P. E. Martin, Montreal,
President,
Canada Steamship Lines (1975)
Limited

C. Orenstein, Toronto,
President,
Consolidated Hotel
Management Ltd.

*M. F. Strong, Calgary,
Chairman of the Board,
Petro-Canada

J. A. Timmins, Toronto,
Vice-President, Marketing & Sales,
The de Havilland Aircraft Company
of Canada, Ltd.

*R. H. E. Walker, Q.C., Montreal,
Partner,
Martineau, Walker, Allison,
Beaulieu, MacKell & Clermont

*J. B. Whitely, Montreal,
President and
Chief Executive Officer

*Member of the Executive Committee

Officers

J. B. Whitely
President and
Chief Executive Officer

T. L. Charne, Q.C.
Senior Vice-President,
Mortgages

J. W. Leech
Vice-President

L. R. Lunn, C.F.A.
Vice-President

H. Kramer, C.A.
Vice-President, Finance

C. J. Cann, C.G.A.
Vice-President

E. D. Bateman, C.A.
Secretary-Treasurer



President's Report

In 1976 Commerce Capital enjoyed another year of excellent earnings growth, thereby sustaining the forward momentum which began in 1970. Earnings before extraordinary items increased for the sixth consecutive year, reaching a record \$1,857,000 compared to \$1,305,000 in 1975. After taking into account an increase in the average number of shares outstanding, this represented 67 cents per share compared to 51 cents the previous year — a solid 31% gain.

This achievement in earnings growth was accompanied by a corresponding achievement in asset expansion. Total assets increased from \$316 million to \$390 million, for a gain of \$74 million or 23%. This included an increase of \$32 million in mortgage loans, \$11 million in marketable securities and \$24 million in property investments. The increment in mortgage loans reflected financing on over 2,700 housing units and other properties. Our cash position at year end stood at \$22 million, up \$8 million over the year. This expansion in assets was financed primarily through the continued growth in deposits, guaranteed investment certificates and other types of guaranteed accounts.

Shareholders' equity increased from \$10,542,000 to \$10,556,000, consisting of a \$1,531,000 increase in retained earnings and a \$1,517,000 decrease, resulting from our acquisition in August of a private investment company owning 400,000 of our own shares. It should be pointed out that this acquisition was advantageous to all shareholders since our shares were valued below their book value and at a relatively low price-earnings multiple. Significantly, shareholders' equity on a per share basis expanded during 1976 from \$3.61 to \$4.19.

Corporate Integration

In last year's annual report we announced a plan of corporate integration, with concentration in the trust and mortgage loan industry. During 1976 several important steps were taken to carry out this plan. One of the most significant was the name change of our two principal subsidiaries — the trust company to Commerce Capital Trust Company and the mortgage company to Commerce Capital Mortgage Corporation. These new names have been well received by our customers across Canada and already we are experiencing many of the advantages of this unified corporate identification policy. A closely related step was the development and introduction of a new corporate logo with only two C's, symbolizing the name we want to be known as — "Commerce Capital". This logo will be used by all companies in our group.

A second major step was the purchase of additional shares in our subsidiaries. Throughout the year we acquired in the open market 77,000 shares of the trust company, bringing

our interest at year end up to 90.27%. We also acquired 59,000 shares of the mortgage company, principally through our participation in a rights issue in January, raising our interest to 97.08%. In addition, we acquired all of the minority interest in Commerce Capital Funding Limited (formerly Commerce Capital Financial Corporation) as part of an overall refinancing plan for that company.

We also strengthened our senior executive team at the corporate level. During 1976 Mr. L. R. Lunn was appointed a Vice-President and Mr. H. Kramer Vice-President, Finance. Early in 1977 Mr. T. L. Charne was appointed Senior Vice-President, Mortgages and Mr. C. J. Cann a Vice-President. All of these executives have been with the corporate group for several years.

Finally, it should be mentioned that in 1976 we combined the Ontario mortgage operations of the trust company and the mortgage company in order to improve our effectiveness in this important market area.

Dividends

We were able to maintain our quarterly dividend policy of 3 cents per share, despite limitations imposed on us by the Federal Government's anti-inflation guidelines. Quarterly dividends of this amount were paid on March 31, June 30, October 15 and December 31. In March of this year the Board of Directors declared a further dividend of 3 cents per share payable March 31, 1977 to shareholders of record March 17, 1977.

New Money Products

We expanded significantly the range of savings alternatives available to our customers across Canada, including (i) the marketing of the mortgage company's bonds throughout our branch network, (ii) the introduction of a new Registered Retirement Savings Plan package with greater flexibility and a wider variety of investment options, and (iii) the creation of a new mortgage investment vehicle, the Comcap Mortgage Fund.

Real Estate

During 1976 we completed our third and fourth shopping centres, one in Winnipeg and the other in Courtenay, B.C. We are pleased with the progress of both of these centres during their initial period of operation.

In February we announced the acquisition of two large condominium projects under construction in the greater Vancouver area. Construction of the units was completed during the year and the marketing program successfully developed and carried out. By year-end we had sold

approximately 60% of the units and expect the balance to be sold in the near future. Due to the softness of the Vancouver real estate market the profitability of these projects has been disappointing.

In October we acquired additional properties in Western Canada when it became evident that this was the best means of protecting certain of our mortgage investments. Some of these properties, which consist principally of condominium and rental units, will be held as long-term investments while others will be sold at the appropriate time.

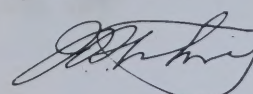
Changes in Directors

At the Special General and Annual Meeting of Shareholders held in April, the Board of Directors was increased from eleven to twelve members. In November, Mr. N. E. Hardy resigned and we wish to express our appreciation for the contribution he made to the affairs of the Company during the period he was a director. In November, Mr. Maurice Strong joined the Board and in March, 1977, Mr. James Addison became our twelfth director. We welcome these two new directors and look forward to their counsel in the years ahead.

Outlook

We are expecting a slowdown in the pace of economic activity in Canada in 1977, with spending on capital goods, consumer goods and housing less than buoyant. With respect to housing, the area with which we are most concerned, we are not anticipating as strong a picture as in 1976 despite the fact that mortgage rates have declined substantially in recent months in response to three Bank Rate reductions. With a large stock of unsold homes, particularly condominiums, still overhanging the market, housing starts in 1977 will likely decline from their 1976 level. On the brighter side, it appears that inflation has been brought under reasonable control and that the Federal Government is recognizing at last the need for a healthier investment climate in this country.

Despite this unexciting economic environment, we intend to expand further our trust and mortgage loan operations across Canada. This may mean slightly lower interest rate margins, but with greater volume, careful control of administrative expenses and efficient money management, we are looking forward to another good year in 1977.



Montreal, March 21, 1977

J. B. Whitely

Financial Review

Earnings Performance

Net earnings during 1976 totalled \$1,857,000 for a 42% increase over the \$1,305,000 earned in 1975. On a per share basis this amounted to 67¢ — an increase of 31% over the 51¢ earned last year. This brought the Company's five-year average annual growth rate to 36%.

This year's profits were achieved principally through maintaining interest rate spreads and increasing volumes of business. The following table illustrates our net earnings by quarter with a comparison to the previous year:

Net Earnings by Quarter

	Amount		Per Share	
	1976	1975	1976	1975
First Quarter	\$ 450,000	\$ 242,000	15¢	10¢
Second Quarter	405,000	315,000	14¢	13¢
Third Quarter	481,000	332,000	18¢	13¢
Fourth Quarter	521,000	416,000	20¢	15¢
Total Year	\$1,857,000	\$1,305,000	67¢	51¢

Return on Shareholders' Equity

In 1976 retained earnings increased by 48% while total shareholders' equity moved up only marginally to \$10,556,000, due to a \$1,517,000 decrease which resulted when the Company purchased a private investment company owning 400,000 Commerce Capital Corporation shares. However, shareholders' equity per share showed an excellent increase by moving up to \$4.19 from \$3.61 for a 16% gain. The following table compares return on shareholders' equity for each of the past five years.

Return on Shareholders' Equity (thousands)

	1976	1975	1974	1973	1972
Average Shareholders' Equity	\$10,669	\$9,148	\$7,559	\$6,540	\$3,564
Earnings before Extraordinary Items	1,857	1,305	826	668	357
Return on Shareholders' Equity	17.4%	14.3%	10.9%	10.2%	10.0%

Net Interest Income

Net interest income expanded significantly, increasing \$1,289,000 or 18% over 1975. The following table shows the breakdown of interest income and interest expense.

Net Interest Income (thousands)

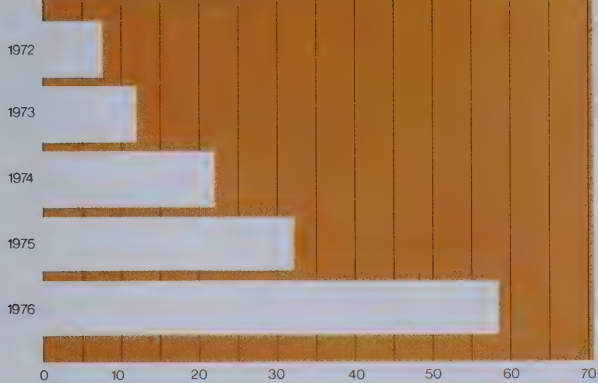
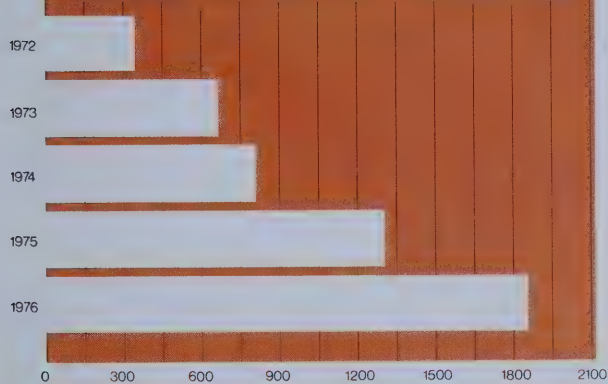
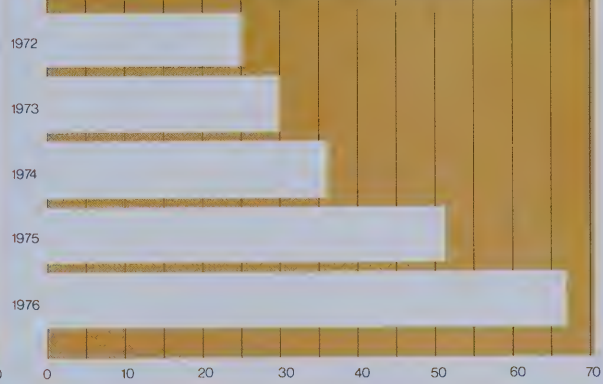
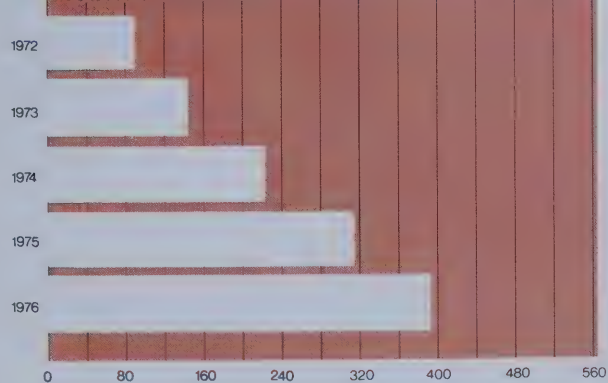
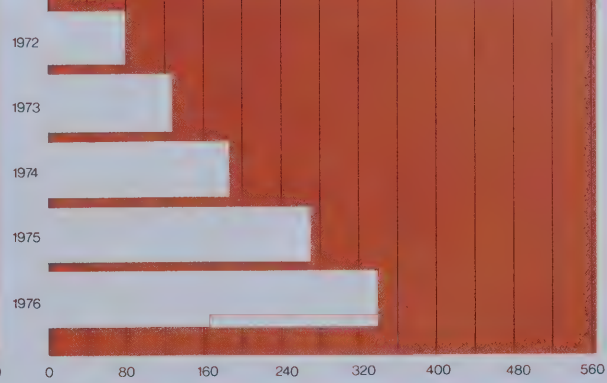
	1976	1975
Interest Income Derived From:		
Mortgage Loans	\$31,606	\$24,944
Securities	5,602	3,591
Factoring	525	472
	<u>\$37,733</u>	<u>\$29,007</u>
Less: Interest Expense On:		
Guaranteed Accounts	\$27,898	\$20,511
Bank Indebtedness	1,111	1,000
Notes & Debentures	187	248
	<u>\$29,196</u>	<u>\$21,759</u>
Net Interest Income	<u>\$ 8,537</u>	<u>\$ 7,248</u>

NOTE: Excludes interest expense on real estate development
(1976 — \$938,000; 1975 — \$709,000)

Other Income and Expenses

Other income consists of such items as income from sale of properties, rental income, factoring commissions, dividends, property management income, gain on the sale of securities and properties, and various other forms of fee income. The most significant source of other income came from the sale of properties (refer to the Real Estate Activities section under Review of Operations) which amounted to \$17,578,000 versus \$558,000 in 1975. The balance from all other sources amounted to \$3,273,000 — an increase of \$978,000 over the previous year. The major part of this later gain came from increased rents, dividends and gain on the sale of securities.

Other expenses were up significantly, again due to our property development program. Cost of properties sold amounted to \$17,710,000, as opposed to \$405,000 in 1975, while various other expenses such as personnel expenses, space costs and general administrative expenses were up \$1,695,000 over 1975 levels.

TOTAL INCOME millions of dollars**NET INTEREST INCOME** millions of dollars**EARNINGS BEFORE EXTRAORDINARY ITEMS** thousands of dollars**EARNINGS PER SHARE BEFORE EXTRAORDINARY ITEMS** cents**TOTAL ASSETS** millions of dollars**GUARANTEED ACCOUNTS** millions of dollars**SHAREHOLDERS' EQUITY** millions of dollars**SHAREHOLDERS' EQUITY PER SHARE** dollars

Investment Portfolio

The year 1976 was one of uncertain economic conditions with only nominal improvement in economic output after the first quarter. However, this moderate level of growth combined with a lower rate of inflation produced the first full year of declining interest rates since 1970-71. Within the strong debt markets which resulted from this environment, the Company was able to achieve substantial improvement in both the yield and structure of its investment portfolio.

Total consolidated investments increased 36% during the year to \$70 million. Funds for this growth came from general increases in the guaranteed accounts. A breakdown of the portfolio holdings is given in the table below:

Investment Portfolio
(thousands)

	Principal Amount	
	1976	1975
Government Bonds	\$30,415	\$15,251
Corporate Bonds & Debentures	8,484	15,861
Short Term Paper & Cash	21,651	13,892
Preferred Shares	7,401	4,686
Common Shares	1,102	1,707
Mortgage Fund	1,000	—
	<u>\$70,053</u>	<u>\$51,397</u>

The \$1,000,000 Mortgage Fund investment represents our commitment to the Comcap Mortgage Fund, an attractive savings alternative introduced to our customers in early 1977 and discussed elsewhere in this report. The table also highlights a major restructuring of our bond investments as management significantly reduced holdings of corporate bonds and directed new investments to Government of Canada and provincial government obligations. This change will allow the Company to better meet its objectives in coming years. Despite the move toward more senior government holdings, the yield on the bond portfolio again improved during 1976. This was accomplished through selective trading of various issues and the movement from corporate to government bonds at historically narrow yield spreads.

The Company further reduced its common share investments in 1976. However, holdings of preferred shares increased sharply during the year. These investments provide attractive rates of return due to the tax status of dividends received. A substantial amount of the preferred shares purchased have retraction privileges before 1982, thereby enabling us to match these investments to the term of our liabilities.

Commerce Capital continued to be active on a continuous basis in the money market. Various governments and corporations placed \$54 million in block deposits with us. Total purchases of short term bank and commercial paper exceeded \$350 million during the year and balances outstanding averaged approximately \$30 million, up 75% from 1975.

Guaranteed Accounts

Our guaranteed accounts increased by over \$73 million or 28% in 1976. At year-end their composition was as follows:

Guaranteed Accounts Analysis

Type	Principal Amount (thousands)	%
Chequing	\$ 4,412	1
Savings	20,731	6
R.R.S.P.(Demand)	67,255	20
R.H.O.S.P.	4,455	1
Bank Loans	1,079	—
G.I.C.'s, Bonds, I.A.C.'s & Term R.R.S.P.		
Due: 1977	76,183	23
1978	47,551	14
1979	19,123	6
1980	43,037	13
1981	51,435	15
After	3,262	1
	<u>\$338,523</u>	<u>100</u>



Commerce Capital Corporation Limited

Review of Operations

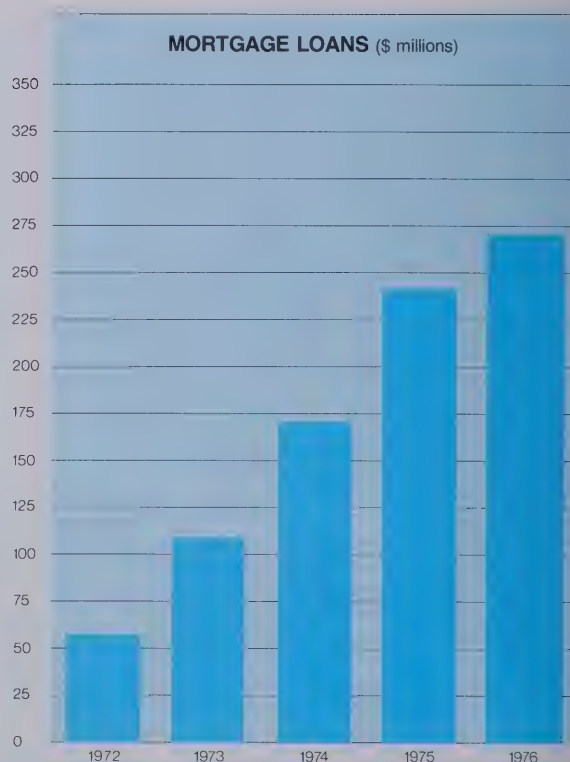


Mortgage Lending

The demand for mortgage loans remained very strong in 1976 as new housing starts reached a historical high of 274,000 units, a 16% increase over the previous year. The company benefited from this strong growth by placing \$93 million in loans, bringing the total amount of mortgages outstanding to \$272 million. This was a net increase of \$33 million after allowing for repayments of \$60 million. This continuing expansion has resulted in a 38% average annual growth rate in our mortgage portfolio over the past five years.

The greatest part of our lending is of a conventional nature, with all loans on real property limited to 75% of the appraised value. In addition, we grant high ratio loans insured under the National Housing Act or by private mortgage insurance companies. Over the past few years we have been able to increase the content of residential loans in our mortgage portfolio to a level of 75% by the end of 1976. To this end, we financed over 2,700 housing units throughout the year, thus helping to satisfy the demand for the development of more homes for Canadians.

The mortgage lending business continues to be the mainstay of Commerce Capital and as a result we have not only expanded our traditional lending activities but we have branched out into related fields. For example, we have expanded our mortgage banking activities, with a total of \$7 million in mortgages being placed with pension funds and other clients in 1976. Total assets under administration in this area now amount to \$20 million. Also, in January of 1977, we introduced the Comcap Mortgage Fund through our branch system. We have recently established a new mortgage brokerage firm called Commerce Capital Financial Services (1977) Limited. This wholly-owned subsidiary will enable us to participate directly in this expanding business while bringing another mortgage service to the public and additional revenues to the Company.





A policy of minimizing risk in our mortgage portfolio through diversification according to size, type of property and geographical location has always been a high priority. The accompanying tables illustrate this diversification at year-end.

It has long been our belief that shorter-term maturities on mortgages would become a more wide-spread practice in lending and to this end we have been industry leaders in developing this type of loan. This has provided more flexibility in the type of mortgage available to our customers and has also resulted in a shortening of the average term in our mortgage portfolio to under three years. The maturity schedule in the opposite column gives a breakdown of the mortgage portfolio's maturity schedule at December 31st, 1976.

The centralization of administration for the trust company's and the mortgage company's mortgage portfolios on our in-house computer facility has improved the efficiency of handling the portfolios, from both the companies' and the clients' points of view. It has also allowed our branch mortgage personnel and area mortgage managers to devote more of their time to business development and customer relations.

Size of Mortgage Loans

	Number of Loans	Principal Amount (thousands)	%
Up to \$ 25,000	3,062	\$ 46,526	17.1
\$ 25,000 — \$ 50,000	2,834	97,251	35.8
\$ 50,000 — \$100,000	628	41,446	15.3
\$100,000 — \$500,000	283	55,721	20.5
\$500,000 and over	32	30,683	11.3
	6,839	\$271,627	100.0

Property Type

	Number of Loans	Principal Amount (thousands)	%
House loans	4,943	\$132,240	48.7
Other residential	1,270	69,967	25.8
Commercial and industrial	396	58,031	21.4
Land and farms	216	9,965	3.7
Others	14	1,424	.4
	6,839	\$271,627	100.0

Geographical Breakdown

	Principal Amount (thousands)	%
British Columbia	\$ 88,000	32.4
Prairie Provinces	97,080	35.8
Ontario and Quebec	80,429	29.6
Other	6,118	2.2
	\$271,627	100.0

Maturity Schedule

	Principal Amount (thousands)	%
1977	\$ 41,784	15.4
1978	94,305	34.8
1979	69,094	25.5
1980	12,898	4.8
1981	44,388	16.3
After	9,158	3.2
	\$271,627	100.0



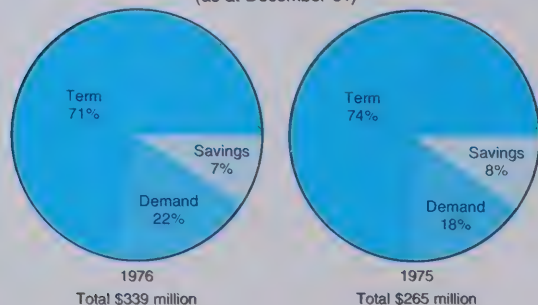
Money Services

This year, through our money services, we were able to help over 80,000 Canadians meet their savings and investment needs. To meet the growing demand for fixed income investments we expanded our range of money services further by introducing a totally new Registered Retirement Savings Plan package. This package allows our customers to choose from a wide variety of investments for their retirement needs. Also, because of the public's interest in the real estate and mortgage fields, we launched a new mortgage investment fund, the Comcap Mortgage Fund. This will enable an investor with a limited amount of capital to participate in the Canadian mortgage market. In 1976 we introduced the sale of Commerce Capital Mortgage Bonds through our trust company's branch system. This enabled us to broaden our customer base and bring our clientele another insured investment vehicle. Our customers are now able to purchase up to \$40,000 in fully-insured deposits from Commerce Capital.

Efforts to keep expanding the Company's money services enabled us to reach \$339 million in deposits in the guaranteed account. This brought a year over year increase of 28%. Areas of major growth were: Guaranteed Investment Certificates, which increased 14% from \$161 million to \$183 million; Registered Retirement Savings Plans, which increased 68% to the \$74 million level; and Series B bonds which increased 42% to \$47 million.

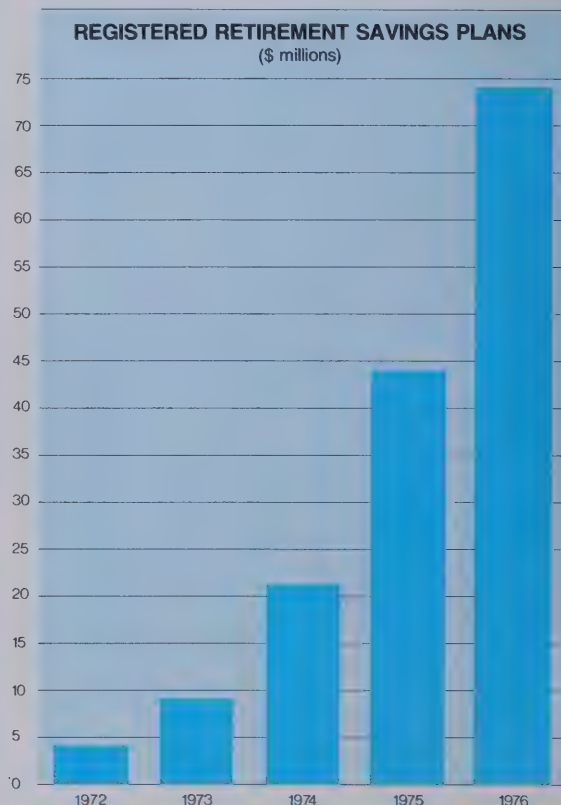
The following chart illustrates the company's continued emphasis on term deposits.

COMPOSITION OF GUARANTEED ACCOUNTS
(as at December 31)



The higher proportion in term accounts allows the Company to match longer-term commitments, particularly mortgages, to its liability position. This matching principle is essential to the maintaining of interest spreads over a period of time.

Commerce Capital continues to be one of the leaders in the retirement savings plan field. In particular our tax-sheltered savings plan, Plan "B", continues to be the number one performer in Canada for guaranteed savings plans. By being number one for five years, it is easy to understand why the Company has had such outstanding growth in this field, as illustrated in the accompanying graph.





Real Estate Activities

Commerce Capital had a very active year in the real estate field, with investment in properties increasing from \$13 million to \$37 million. This growth resulted largely from the development of two new shopping centres and our entry into the field of residential condominium development.

During 1976 we completed construction of our third and fourth shopping centres bringing a total of over 700,000 square feet of retail space under our property management. In May, we opened the Driftwood Mall in Courtenay, British Columbia. This centre, which is a medium-sized enclosed mall plaza, is located on a 22-acre site that provides a total of 140,000 square feet of retail space and enough parking for over 700 automobiles. The principal tenants in the centre are Zellers and Overwaitea Foods.

Garden City Square, our fourth and largest centre, was officially opened in late October. This centre is situated on 20 acres of land in Winnipeg and has 242,000 square feet of retail space and parking for 1,200 automobiles. The principal tenants are F. W. Woolworth and Canada Safeway.

Both centres are close to being fully leased and show early signs of good progress, with retail sales in an upward trend. These two centres, unlike our first two — Kenora Shoppers Mall and Estevan Shoppers Mall — are projects in which we have partners. In each case we hold 50% of the equity while retaining 100% of the property management. We have found this to be a beneficial arrangement since it allows us to release capital needed for future developments while at the same time increasing our property management business.

Our other major activity during the year was in the field of residential development. In February 1976, we purchased two large condominium complexes in greater Vancouver. Over 400 individual units were built and placed on the market during the year. Sales have been proceeding at a very satisfactory pace with 60% of the units sold by year-end. One important aspect of our marketing program was the introduction of a tax-shelter plan which received wide interest from investors.

With the rapid growth in the Company it has been necessary to carry out a program of upgrading, improving and expanding our customer service facilities. To this end, three of our most important branches were expanded and improved. The Toronto branch was re-located to our new Commerce Capital premises, the Edmonton branch was moved to our own new building, and the Montreal branch was completely renovated.



Factoring

Commerce Capital's factoring business continues to make progress as it enters its fifth year of operations. Over the past four years receivables purchased have increased from just under \$5 million in 1973 to approximately \$40 million by year-end 1976. Of total accounts receivable purchased, 62% were factored sales where we assumed the risk of credit loss and the balance was commercial financing, where we had recourse to the client. The increased volume was principally due to the expansion of our client base which now exceeds sixty. The accompanying graph illustrates our progress in the factoring business over the past four years.

1976 was an unsettling year for a number of our clients because of the generally weak economic conditions prevalent in eastern Canada and the introduction of government legislation which created some uncertainty for the textile industry. These developments had a dampening effect on the factoring industry, making credit approvals and account supervision more demanding. Nevertheless, we did not experience any major credit problems.

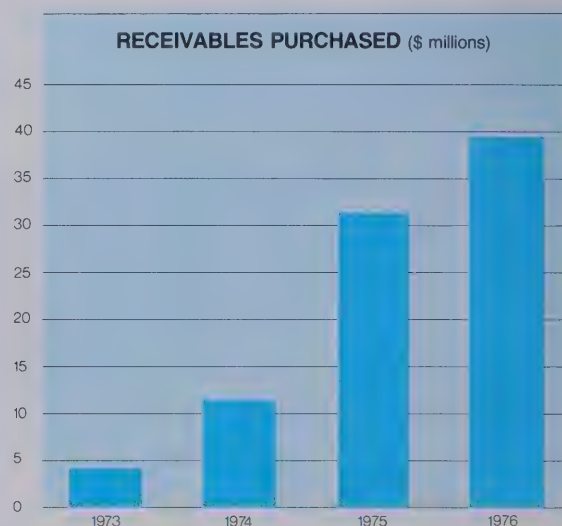
Throughout the year we continued to diversify the distribution of our business on a geographical basis by moving further into the Ontario market, which now accounts for over 15% of our business. This diversification plus the introduction of a new letter of credit service helped us generate additional business.

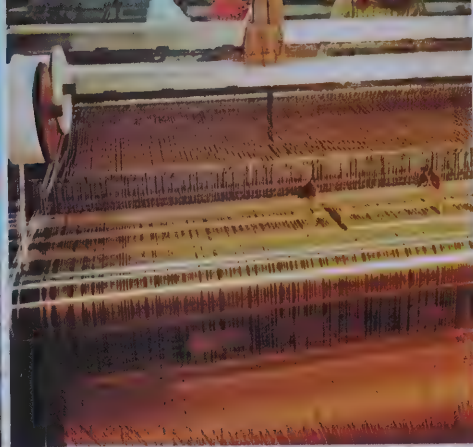
Our reliance on any one industry group continues to diminish, in particular, our reliance on the textile and garment industries. During the past year only 46% of receivables processed were from these industries, compared to 50% in 1975 and 65% in 1974. This policy of diversification will continue to be pursued in order to further strengthen and expand our business. The accompanying chart in the opposite column compares our industry weightings.

Due to the expected slowdown in the economy and current uncertainties in the Province of Quebec we are approaching 1977 with some caution. However, we still expect a modest improvement in the volume of receivables purchased.

Industry Diversification

Category	1976 %	1975 %	1974 %
Advertising	6.0	6.0	12.0
Automobile accessories	2.0	3.0	3.5
Cartons and packaging	4.0	4.0	7.5
Drapery fabrics	7.0	6.0	—
Fabrics — woven and knitted	3.0	8.5	18.0
Furniture	7.0	8.5	1.7
Furniture and machinery components	3.0	5.0	5.8
Garments and footwear	43.0	41.0	47.0
Restaurant equipment and refrigeration	4.0	5.0	1.5
Sporting goods	3.0	1.0	—
Yarn	14.0	12.0	3.0
Others	4.0	—	—
	100.0	100.0	100.0









Commerce Capital Corporation Limited

Consolidated Financial Statements 1976



Commerce Capital Corporation Limited

Consolidated Balance Sheet

as at December 31, 1976

Assets	<u>1976</u>	<u>1975</u>
Cash and deposit receipts	\$ 21,651,000	\$ 13,892,000
Marketable securities (quoted market value \$47,362,000; 1975 — \$33,730,000)	48,402,000	37,505,000
Mortgages (note 2)	271,627,000	239,204,000
Accounts receivable and other assets (note 3)	7,466,000	8,447,000
Investment in properties (note 4)	37,139,000	13,391,000
Premises, equipment and leasehold improvements — at cost less accumulated depreciation of \$646,000 (1975 — \$457,000)	2,517,000	2,089,000
Excess of cost of shares over net book value of assets of subsidiary companies (note 1(a))	1,365,000	1,209,000
	<u>\$390,167,000</u>	<u>\$315,737,000</u>

Approved by the Board:

J. B. Whitely, Director

R. H. E. Walker, Director

Liabilities and Shareholders' Equity

	<u>1976</u>	<u>1975</u>
Guaranteed accounts (note 5)		
Deposits	\$107,040,000	\$ 68,466,000
Guaranteed investment certificates	183,374,000	160,616,000
Bonds	47,030,000	33,388,000
Bank loans	<u>1,079,000</u>	<u>2,707,000</u>
	338,523,000	265,177,000
Other liabilities		
Bank indebtedness — secured	6,929,000	8,244,000
Accounts payable and accrued liabilities	4,107,000	4,015,000
Income taxes	184,000	555,000
Income debenture (note 6)	5,000,000	5,000,000
Notes payable (note 7)	1,295,000	2,400,000
Mortgages payable (note 8)	12,452,000	9,515,000
Deferred income	<u>4,560,000</u>	<u>4,701,000</u>
	373,050,000	299,607,000
Deferred income taxes	<u>2,400,000</u>	<u>1,311,000</u>
Minority interest		
Preferred shares	3,100,000	3,100,000
Common shares and retained earnings	<u>1,061,000</u>	<u>1,177,000</u>
	4,161,000	4,277,000
Shareholders' Equity		
Capital stock		
Authorized: 5,000,000 common shares without nominal or par value		
Issued: 2,916,870 shares	7,377,000	7,377,000
Retained earnings	<u>4,696,000</u>	<u>3,165,000</u>
	12,073,000	10,542,000
Less: 400,000 common shares held by a subsidiary company — at cost	<u>(1,517,000)</u>	<u>—</u>
	10,556,000	10,542,000
	<u>\$390,167,000</u>	<u>\$315,737,000</u>



Commerce Capital Corporation Limited

Consolidated Statement of Earnings

Year ended December 31, 1976

	<u>1976</u>	<u>1975</u>
Income		
Interest	\$37,733,000	\$29,007,000
Income from sale of properties	17,578,000	558,000
Income from all other sources	<u>3,273,000</u>	<u>2,295,000</u>
	<u>58,584,000</u>	<u>31,860,000</u>
Expenses		
Interest	30,134,000	22,468,000
Cost of properties sold	17,710,000	405,000
Other administrative and general expenses	<u>6,153,000</u>	<u>5,458,000</u>
	<u>53,997,000</u>	<u>28,331,000</u>
Earnings Before Income Taxes and Minority Interest	<u>4,587,000</u>	<u>3,529,000</u>
Income taxes		
Current	1,064,000	1,449,000
Deferred	<u>1,088,000</u>	<u>461,000</u>
	<u>2,152,000</u>	<u>1,910,000</u>
	2,435,000	1,619,000
Minority Interest	<u>578,000</u>	<u>314,000</u>
Net Earnings	<u>\$ 1,857,000</u>	<u>\$ 1,305,000</u>
Earnings per Share (note 9)	67¢	51¢

Consolidated Statement of Retained Earnings

Year ended December 31, 1976

Balance at Beginning of Year	\$3,165,000	\$2,144,000
Net earnings	<u>1,857,000</u>	<u>1,305,000</u>
	<u>5,022,000</u>	<u>3,449,000</u>
Dividends	326,000	88,000
Share of expenses of issue of preferred shares by a subsidiary company	<u>—</u>	<u>196,000</u>
	<u>326,000</u>	<u>284,000</u>
Balance at End of Year	<u>\$4,696,000</u>	<u>\$3,165,000</u>

Notes to Consolidated Financial Statements

Year ended December 31, 1976

1. SIGNIFICANT ACCOUNTING POLICIES

(a) Principles of Consolidation

The consolidated financial statements include the assets and liabilities of all subsidiary companies and the results of their operations from their respective dates of acquisition or incorporation.

The excess of the cost of shares over the net book value of assets of subsidiary companies acquired is recorded on the consolidated balance sheet. An amount of \$893,000 pertaining to subsidiaries acquired prior to March 31, 1974 is being carried without amortization. For acquisitions subsequent to that date, the excess, amounting to \$486,000, is being amortized over 40 years from the respective dates of acquisition.

(b) Marketable Securities

The major portion of marketable securities consists of government and corporate bonds which are recorded in the accounts at amortized cost.

(c) Mortgages

Mortgages are subject to continual review and, if required, appropriate provisions are recorded in the accounts for estimated losses.

(d) Investment in Properties

All costs and expenses which are directly related to real estate development activities are capitalized until substantial rental occupancy is achieved. Thereafter, the cost of the developed properties, exclusive of land costs, is depreciated on a 5%, thirty-year sinking fund basis.

Properties held for sale are recorded at the lower of cost and estimated net realizable value.

(e) Premises, Equipment and Leasehold Improvements

Premises, equipment and leasehold improvements are stated at depreciated cost. In general, depreciation and amortization is being provided using the following methods and rates:

Premises	—	straight line over 20 years
Equipment	—	straight line over 10 years
Leasehold improvements	—	straight line over 5 years

(f) Recognition of Revenues and Expenses

Interest income and interest expense are recorded on an accrual basis, as are all other income and expense items with the exception of the following:

- (1) In connection with mortgage operations, mortgages are issued at a discount or a service fee is charged. Both of these are deferred and taken into interest income over the term of each mortgage.
- (2) Financing expenses in connection with bond issues are carried as an asset at unamortized cost and are being amortized to interest expense over the terms of the bonds.

(g) Income Taxes

The tax allocation method of providing for income taxes is being used. Under this method, income taxes in the consolidated statement of earnings have been calculated on the basis of reported earnings rather than on earnings currently taxable.

2. MORTGAGES

Included therein is an amount of \$4,324,000 (1975 — \$5,622,000) representing beneficial ownership of interests in certain registered mortgages, which interests are held in trust by an officer and director of a subsidiary company who is also a director of Commerce Capital Corporation Limited.

3. ACCOUNTS RECEIVABLE

Included therein is an amount of \$4,470,000 (1975 — \$5,935,000) representing accounts receivable purchased in connection with factoring operations.



Commerce Capital Corporation Limited

Notes to Consolidated Financial Statements (cont'd)

4. INVESTMENT IN PROPERTIES

	1976	1975
Developed properties	\$13,164,000	\$ 8,117,000
Accumulated depreciation	279,000	145,000
	<u>12,885,000</u>	<u>7,972,000</u>
Properties under development	9,524,000	5,231,000
Properties held for sale	14,730,000	188,000
	<u>\$37,139,000</u>	<u>\$13,391,000</u>

5. GUARANTEED ACCOUNTS

The guaranteed accounts pertain to regulated trust and loan operations and are secured by the following segregated assets:

	1976	1975
Cash and deposit receipts	\$ 11,562,000	\$ 3,410,000
Marketable securities	39,877,000	29,732,000
Mortgages	263,988,000	232,035,000
Properties	23,096,000	—
	<u>\$338,523,000</u>	<u>\$265,177,000</u>

6. INCOME DEBENTURE

The income debenture matures December 31, 1977 and bears interest at a rate which is tied to the prime lending rate of the company's bankers.

7. NOTES PAYABLE

\$1,145,000 — 10 $\frac{1}{2}$ % subordinated notes repayable in annual instalments of \$105,000 with a final payment of \$620,000 in 1982, for which certain marketable securities, maturing in 1982, are being held to provide funds.

\$150,000 — 12% notes, maturing in 1984, due primarily to minority shareholders of a subsidiary company, unsecured and subordinated to the bank indebtedness of the subsidiary company.

8. MORTGAGES PAYABLE

	1976	1975
Mortgages secured by developed properties, bearing interest ranging from 9 $\frac{3}{4}$ % to 13 $\frac{3}{4}$ %, maturing from 1980 to 1997	\$12,151,000	\$ 7,265,000
Mortgages secured by properties under development, bearing interest at 10 $\frac{3}{4}$ %	—	1,650,000
Other	301,000	600,000
	<u>\$12,452,000</u>	<u>\$ 9,515,000</u>

Minimum annual principal payments for the next five years are: 1977 — \$68,000; 1978 — \$76,000; 1979 — \$93,000; 1980 — \$805,000 and 1981 — \$292,000.

9. EARNINGS PER SHARE

Earnings per share have been calculated based on the weighted average number of shares outstanding in 1976 and 1975 of 2,760,158 and 2,539,336 respectively.

10. CONTINGENT LIABILITIES

- At December 31, 1976, in connection with factoring operations, the collection of accounts receivable of approximately \$2,686,000 in addition to those reflected on the consolidated balance sheet had been guaranteed and the company was contingently liable for outstanding letters of credit of approximately \$351,000.
- At December 31, 1976 the company was contingently liable to a maximum of \$492,000 pursuant to agreements respecting the sale of certain properties on which the company warranted that a minimum rental income would be earned by the purchaser for a period of one year.

11. ANTI-INFLATION RESTRICTIONS

The company is subject to dividend restrictions under the provisions of the Anti-Inflation Act (Canada) which became effective October 14, 1975. Under these restrictions the maximum amount of dividends which may be paid during the year ending October 13, 1977 is \$326,000.

12. STATUTORY INFORMATION

	1976	1975
(a) Remuneration of Directors and Officers		
Remuneration of directors, as such		
(1) Number of directors:	11	11
(2) Paid by:		
Commerce Capital Corporation Limited	\$ 26,000	\$ 28,000
Subsidiary Companies	20,000	15,000
	<u>\$ 46,000</u>	<u>\$ 43,000</u>
Remuneration of officers, as such		
(1) Number of officers:	6	5
(2) Paid by:		
Commerce Capital Corporation Limited	\$115,000	\$124,000
Subsidiary Companies	148,000	125,000
	<u>\$263,000</u>	<u>\$249,000</u>
	<u>\$309,000</u>	<u>\$292,000</u>
Number of directors who are also officers	2	3
(b) Depreciation and amortization of		
leasehold improvements charged to operations	\$345,000	\$229,000

13. COMPARATIVE FIGURES

Certain 1975 items have been reclassified to conform with the 1976 presentation.

Auditors' Report

To the Shareholders
Commerce Capital Corporation Limited

We have examined the consolidated balance sheet of Commerce Capital Corporation Limited as at December 31, 1976 and the consolidated statements of earnings and retained earnings for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 31, 1976 and the results of its operations for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Montreal, Canada
March 4, 1977

Thorne Russell & Co.

Chartered Accountants

Five-Year Financial Summary

	1976	1975	1974	1973	1972
Year-End Position					
(thousands except per share figures)					
Assets					
Cash and deposit receipts	\$ 21,651	\$ 13,892	\$ 5,952	\$ 2,167	\$ 7,746
Securities	48,402	37,505	28,046	29,483	27,101
Mortgages	271,627	239,204	167,673	105,412	53,566
Accounts receivable factored	4,470	5,935	3,282	1,828	—
Properties	37,139	13,391	9,643	4,099	1,851
Other	6,878	5,810	6,112	3,605	1,637
	\$390,167	\$315,737	\$220,708	\$146,594	\$ 91,901
Guaranteed accounts					
Deposits	\$107,040	\$ 68,466	\$ 37,916	\$ 13,020	\$ 10,720
Guaranteed investment certificates	183,374	160,616	122,719	92,740	59,123
Bonds	47,030	33,388	24,643	15,419	7,627
Bank loans	1,079	2,707	1,321	1,444	2,790
	\$338,523	\$265,177	\$186,599	\$122,623	\$ 80,260
Other liabilities	\$ 34,527	\$ 34,430	\$ 22,145	\$ 13,929	\$ 2,959
Deferred income taxes	\$ 2,400	\$ 1,311	\$ 853	\$ 489	\$ 213
Minority interest	\$ 4,161	\$ 4,277	\$ 3,048	\$ 2,508	\$ 2,780
Shareholders' equity	\$ 10,556	\$ 10,542	\$ 8,063	\$ 7,045	\$ 5,689
Per share	\$ 4.19	\$ 3.61	\$ 3.38	\$ 3.09	\$ 2.68
Results for Year					
(thousands except per share figures)					
Income					
Interest	\$ 37,733	\$ 29,007	\$ 20,197	\$ 10,659	\$ 7,387
Other	20,851	2,853	1,935	1,535	955
	\$ 58,584	\$ 31,860	\$ 22,132	\$ 12,194	\$ 8,342
Expenses					
Interest	\$ 30,134	\$ 22,468	\$ 14,766	\$ 7,587	\$ 5,224
Other	23,863	5,863	4,798	2,753	1,726
	\$ 53,997	\$ 28,331	\$ 19,564	\$ 10,340	\$ 6,950
Earnings before extraordinary items	\$ 1,857	\$ 1,305	\$ 826	\$ 668	\$ 357
Per share	67¢	51¢	36¢	30¢	25¢
Net earnings	\$ 1,857	\$ 1,305	\$ 826	\$ 667	\$ 401
Per share	67¢	51¢	36¢	30¢	28¢
Shareholders' Statistics					
Common shares outstanding					
Weighted average	2,760,158	2,539,336	2,314,843	2,258,061	1,441,037
At year-end	2,516,870	2,916,870	2,386,870	2,276,870	2,124,370
Approximate number of registered shareholders	2,300	2,300	2,300	2,300	2,000

